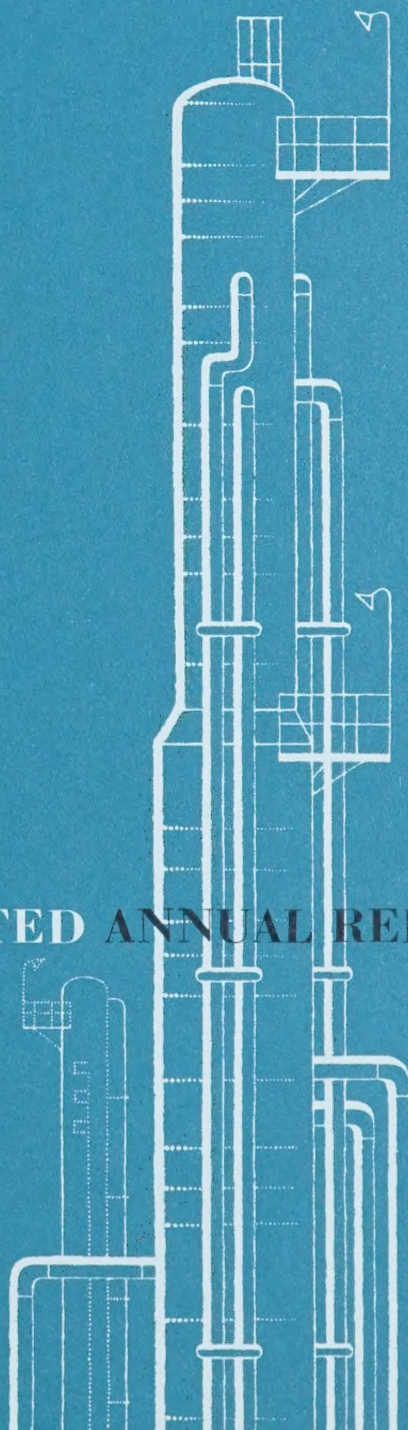


PROVO GAS PRODUCERS LIMITED ANNUAL REPORT 1959





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Head office

706-Seventh Avenue West, Calgary, Alberta

Directors

D. R. Annett, Toronto, Ontario
D. C. Collin, Calgary, Alberta
B. H. Corey, Calgary, Alberta
C. S. Dunkley, Calgary, Alberta
J. P. Gallagher, Calgary, Alberta
G. R. Gardiner, Toronto, Ontario
W. V. MacInnes, Toronto, Ontario
C. W. Michel, New York, N.Y.
D. M. Wolcott, Calgary, Alberta

Officers

J. P. Gallagher, President
D. M. Wolcott, Vice-President
H. M. Burgess, Secretary
T. S. M. Gard, Treasurer

Registrar and transfer agent

National Trust Company Limited
Calgary, Toronto, Montreal

Auditors

Clarkson, Gordon & Co., Calgary, Alberta

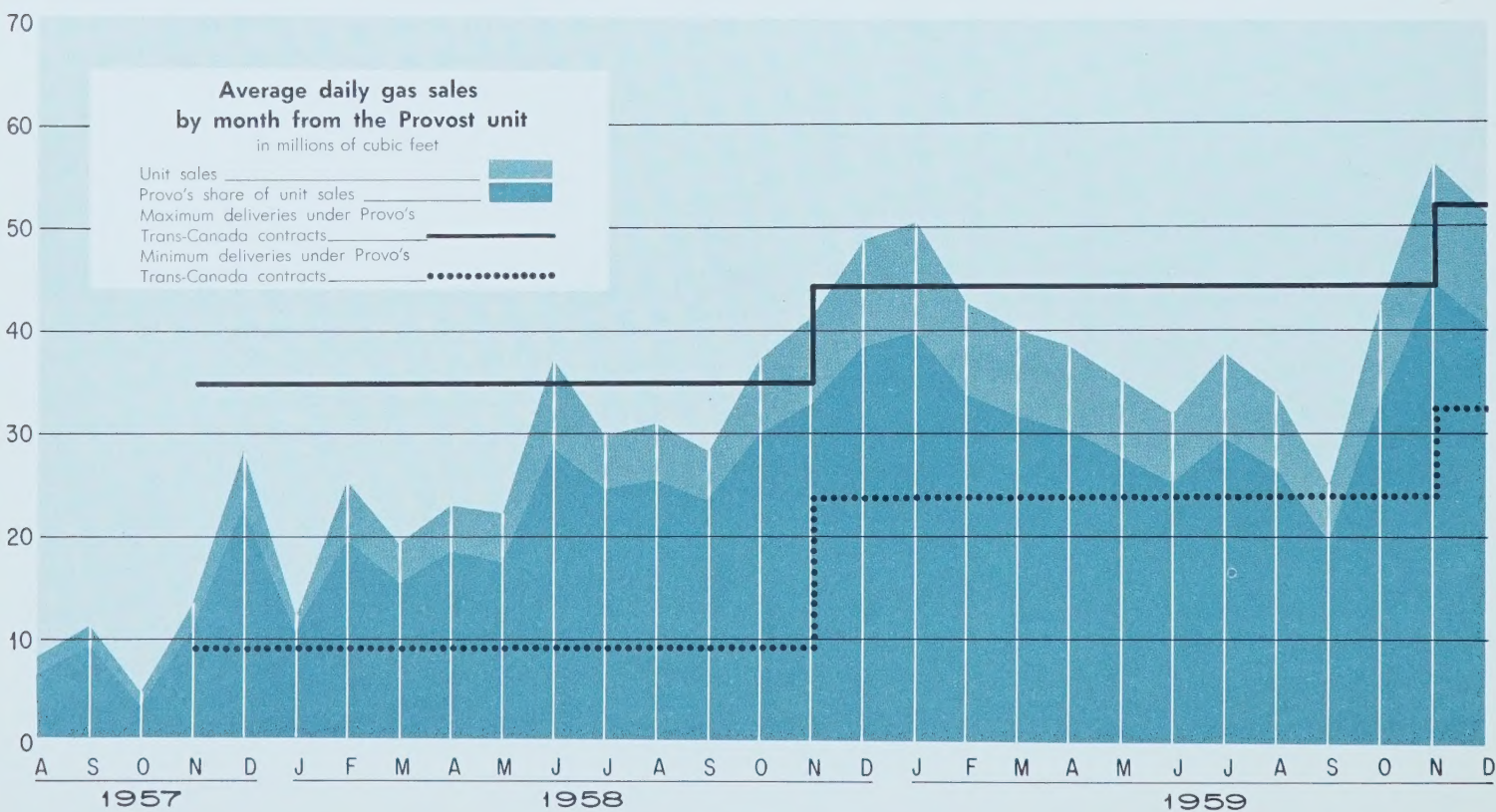
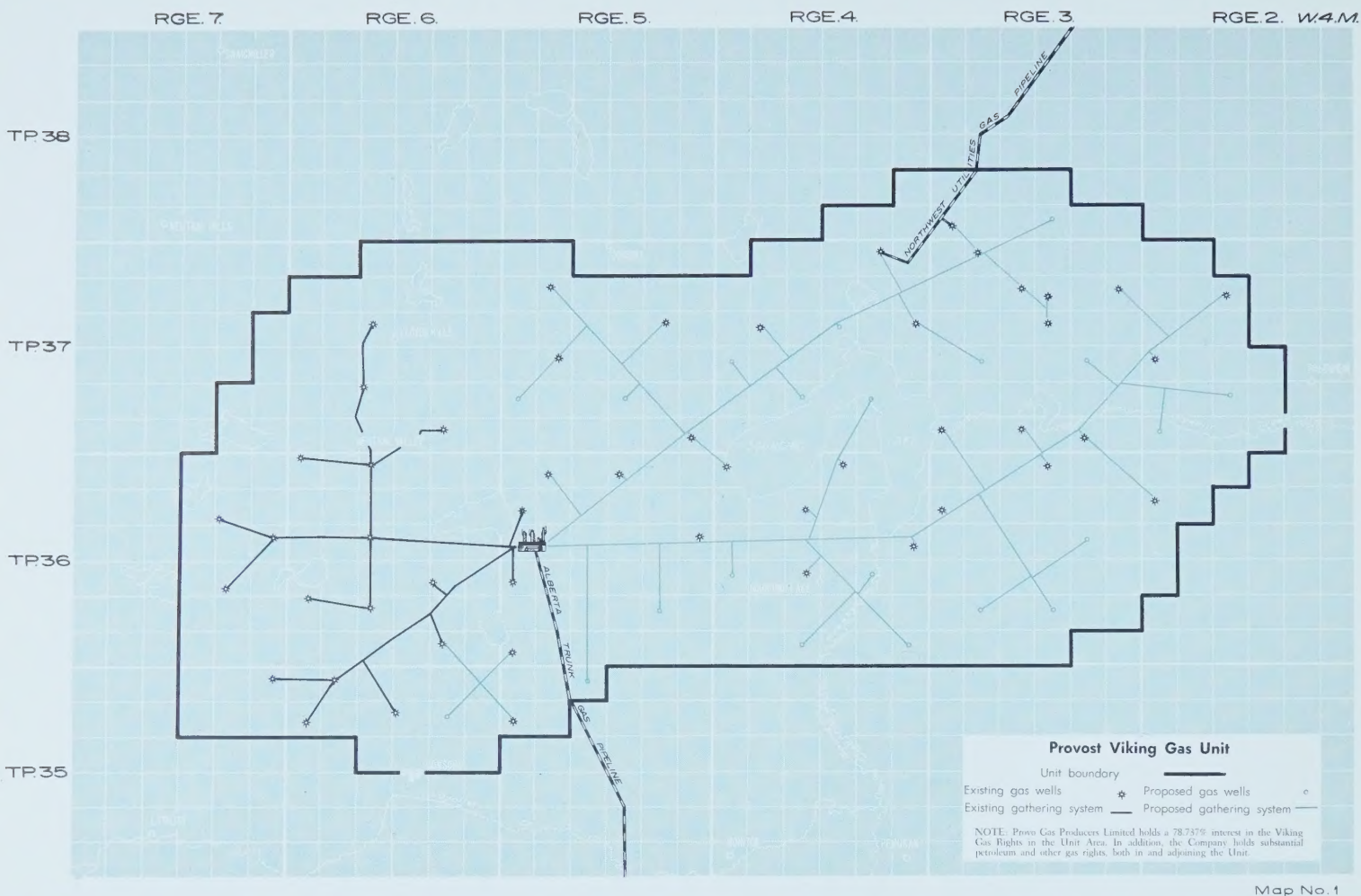
Legal counsel

Williamson, MacKay and Thomson, Calgary, Alberta

Stock listed

Toronto Stock Exchange
Canadian Stock Exchange

PROVO GAS PRODUCERS LIMITED **ANNUAL REPORT 1959**



Report of the Directors

To the shareholders: Despite delays in the approval of gas export and continued market restrictions on crude oil, your Company showed substantial progress during 1959. Highlights of the past year were as follows:

- *Operating income increased 83%.*
- *Gas sales increased 38%.*
- *Gas reserves, oil reserves and oil production were increased.*
- *The processing and gathering facilities at Provost were expanded.*
- *A \$4,500,000 First Mortgage Financing was completed.*
- *The assets of Basco Oil & Gas Co. Ltd. were purchased.*
- *Steelman Gas Limited, an affiliated company, completed its first year of operations and enlarged its processing and gathering capacity.*

Acquisitions—An important factor in your Company's 1959 operations was the acquisition of new properties containing proved and potential gas and oil reserves. These are summarized below in the order in which they occurred.

In January, 1959, your Company acquired interests in approximately 105,000 net acres of petroleum and natural gas rights in return for 171,497 treasury shares. This purchase included light gravity oil production in the North Virden field of Manitoba and an average 23% working interest in the 403,000-acre Buckingham permit group of northeastern British Columbia.

Six significant wildcat test wells are currently being drilled by other companies on permits adjoining this Buckingham acreage. Three of these wells have already obtained commercial gas and are being deepened to test lower horizons. A joint deep test well is planned in 1960 on our Buckingham Permit No. 44.

On August 28, 1959, your Company purchased a 100% interest in 13 producing oil wells and 2,078 acres of Crown lease in the southwestern section of the Pembina oil field. These properties were purchased for 175,000 treasury shares and are subject to sliding scale overriding royalties until payout of development costs. Thereafter Provo's interest will be 49%, subject only to its share of Crown royalty. Your Company's estimated net recoverable reserves from these properties are 1,675,000 barrels.

On November 25, 1959, all of the assets of Basco Oil & Gas Co. Ltd. were purchased by Provo through an exchange of 768,500 treasury shares of your Company for the 2,305,500 outstanding shares of Basco. As a result of this purchase, Provo acquired interests in 427,178 gross acres of petroleum and natural gas rights including the following:

A 25% net carried interest in the 50,755-acre British Columbia Laprise Creek Permit No. 187, on which Dome Petroleum Limited has completed five excellent Triassic gas producers to date. Gas sales from this permit to Westcoast Transmission started in early January, 1960.

Varying carried interests in 192,831 other permit acres and 23,068 lease acres in northeastern British Columbia. The majority of these holdings have good gas and oil potential.

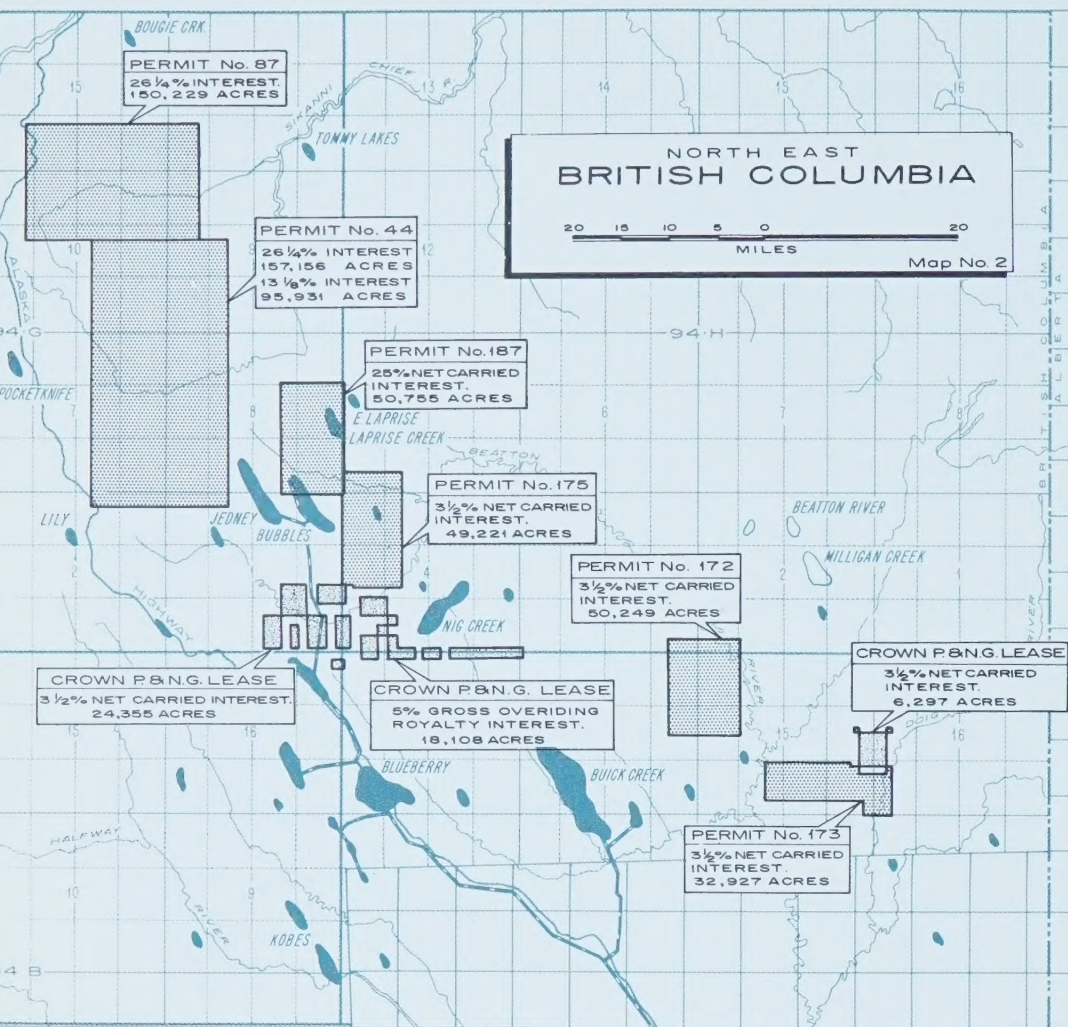
A 16⅔% interest in 9,760 acres and an 8⅓% interest in 5,760 acres of petroleum and natural gas rights in the Carstairs area of Central Alberta. A Cardium light gravity oil discovery with a potential of 250 barrels per day was completed on this land late in 1959. A second Cardium producer was completed on this property in January, 1960, at a location two miles northwest of the discovery well. Further development drilling is in progress.

Production—Average daily gas sales from the Provost Unit during 1959 were 40.5 million cubic feet. Provo's share of these sales was 31.9 million cubic feet per day or a total of 11.6 billion cubic feet for the year. This compares to Provo's 1958 average of 23 million cubic feet per day and 8.4 billion cubic feet for the year. Provo's share of current sales is averaging 41 million cubic feet per day.

The acquisition of proved and producing oil properties resulted in Provo's oil production increasing to 70,855 barrels in 1959, compared with 29,270 barrels in the previous year.

Reserves—Your Company's estimated proved gas reserves at December 31, 1959, totalled 596 billion cubic feet. The increase in reserves is the result of acquisitions of acreage and drilling in northeastern British Columbia. Probable gas reserves are not included in this estimate.

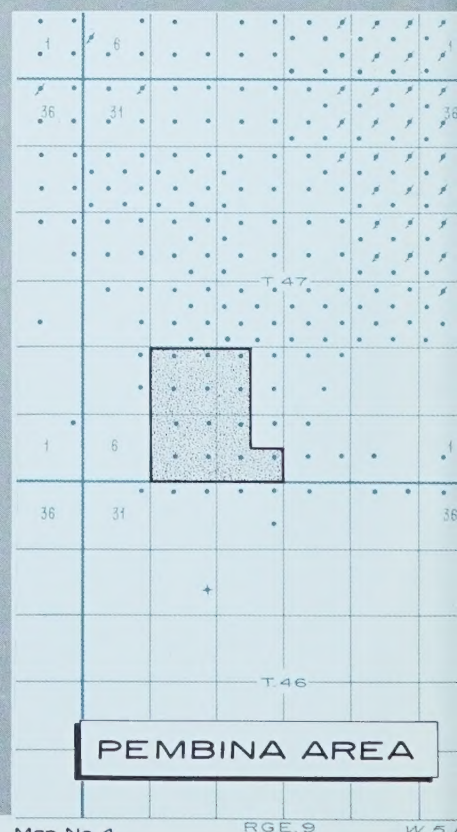
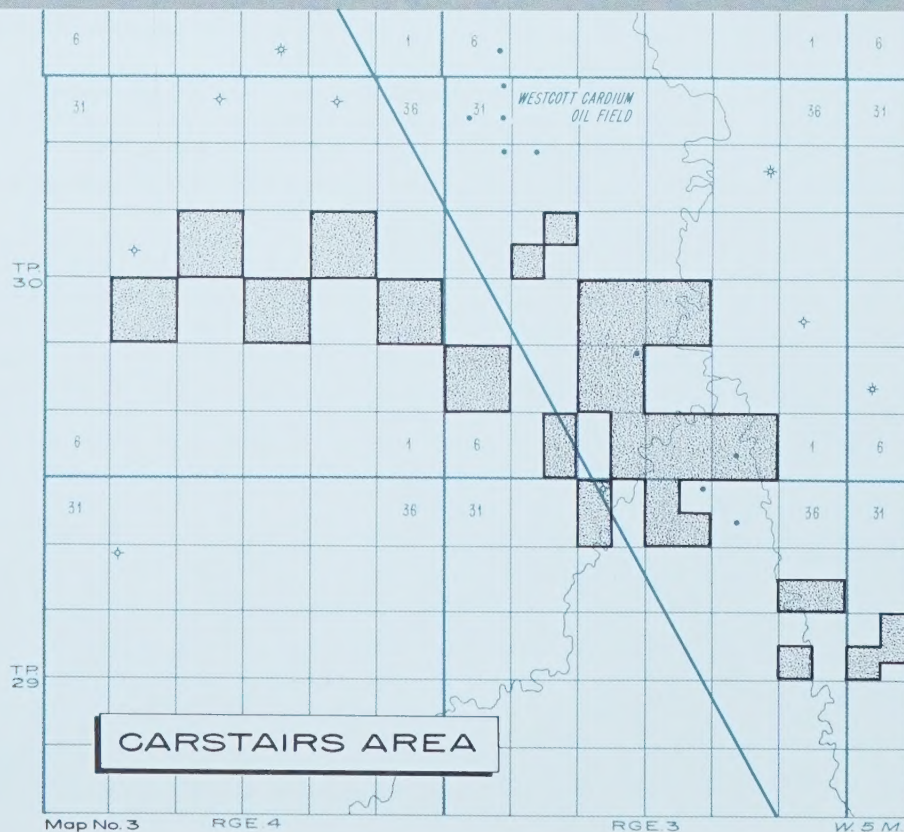
Net proved oil and condensate reserves at December 31, 1959, are estimated at 2,700,000 barrels, largely in the Pembina oil field. Probable reserves and Hughenden heavy gravity oil reserves are excluded from this figure.



1959 ACQUISITIONS

Provo P&NG Permit 
Provo P&NG Lease 

Oil Well 
Gas Well 
Water Injection Well 
Dry & Abandoned Well 
Oil Field 
Gas Field 
Oil Pipeline 
Gas Pipeline 



Exploration and development—Provo participated in drilling eight wells during the year for a total of 27,918 feet of hole. The results of this drilling included one oil well, five gas wells and two exploratory dry holes.

PROVOST, ALBERTA—During 1959 the Provost Unit plant and gathering facilities were expanded for an expenditure of \$673,000, of which Provo's share was approximately \$530,000. The enlarged system has processed 85 million cubic feet of gas per day and, with minor additions, should be sufficient to handle contract requirements for the next few years.

Land—As at February 29, 1960, Provo Gas Producers held interests in 1,209,675 acres of petroleum and/or natural gas rights in the four western provinces, equivalent to 439,655 net acres. This compares with 984,867 gross acres and 492,294 net acres at the same date last year.

Steelman Gas Limited—Provo and Dome Petroleum Limited each owns 39% of the outstanding shares of Steelman Gas Limited. This company was formed in 1957 by Provo and Dome to construct and operate facilities for processing flare gas produced from the oil wells in the Steelman area of southeastern Saskatchewan.

For the first twelve months of operations ended November 30, 1959, throughput at the plant totalled 8.29 billion cubic feet, or an average of 22.7 million cubic feet per day, compared with a designed capacity of 25 million cubic feet per day. Recent extensions to the gathering and processing facilities have increased the plant's capacity to approximately 33 million cubic feet per day with the average throughput expected to exceed 30 million cubic feet. At 30 million cubic feet per day this plant annually should produce over 25,000,000 Imperial gallons of propane, butanes and natural gasoline in addition to the residue gas and sulphur. All plant products are currently being marketed.

Financial—Increased gas sales from the Provost Unit, together with a sharp increase in oil income, resulted in the Company's gross income after royalties totalling \$1,292,086, compared with \$838,694 in 1958. Operating income, after direct operating expenses and general and administrative expenses, increased to \$835,354 from \$456,278 in the previous year. Exploration, engineering and dry hole costs (including lease abandonments) were reduced to \$129,810 from \$154,098 in 1958. New acreage acquisitions caused acreage rentals on non-producing properties to increase this year to \$118,439 from \$64,155 last year. Depreciation and depletion also rose to \$347,527 from \$232,611 in 1958. The operations for 1959 showed a net profit of \$67,160 compared with a net loss in 1958 of \$102,865.

Current assets at December 31, 1959, were \$2,204,941 with current liabilities totalling \$511,267 for a working capital balance of \$1,693,674.

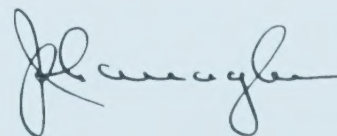
On September 30, 1959, Provo completed a First Mortgage financing totalling \$4,500,000. The average interest cost on the five-year serial bonds and the fifteen-year sinking fund bonds was approximately 6%. The proceeds of this financing were used in part to retire outstanding bank loans.

At a Special General Meeting of Shareholders held on November 12, 1959, approval was given to increase the number of authorized capital shares of the Company to 10,000,000. Shares outstanding at December 31, 1959, total 7,603,235.

The Canadian Government's approval of gas export to the United States should enable the Company to produce at near maximum rates from the Provost field, rather than at minimum rates that could have prevailed without gas export. The maximum deliveries from Provost under the Company contracts are 52.4 million cubic feet per day in 1960. Gas export will also shorten the time in which the Company's gas reserves located elsewhere in the province can be developed and marketed.

Your Company anticipates a substantial increase in operating income for 1960, resulting from increased gas deliveries to Trans-Canada Pipe Lines and increased crude oil and condensate production.

On behalf of the Board of Directors



April 1, 1960

PRESIDENT



CANADA

Provo Interest Acreage at February 29, 1960 — 

Note 1: Provost Area

Note 3: Carstairs Area

Note 2: Northeast B.C.

Note 4: Pembina Area

See detailed maps in report.

Major oil pipelines 

Major gas pipelines 



Provo Gas Producers Limited and its wholly-owned subsidiary

Consolidated balance sheet December 31, 1959 and 1958

ASSETS	1959	1958
CURRENT:		
Cash	\$ 245,181	\$ 51,055
Short-term deposits at cost plus accrued interest	1,634,292	—
Accounts receivable—		
Trade	226,518	191,855
Affiliated companies	3,238	4,338
Inventory of casing and supplies at cost	78,178	100,073
Prepaid expenses	17,534	17,008
	<u>\$ 2,204,941</u>	<u>\$ 364,329</u>
INVESTMENTS—AT COST:		
Shares of Steelman Gas Limited (quoted market value 1959— \$1,290,000; 1958—\$2,580,000)	\$ 1,075,000	\$ 1,075,000
Other	66,035	—
	<u>\$ 1,141,035</u>	<u>\$ 1,075,000</u>
PROPERTY, PLANT AND EQUIPMENT—AT COST (Note 2):		
Producing properties including well development expenditures, less accumulated depletion of \$326,792 (1958—\$147,448)	\$ 6,991,265	\$ 5,307,570
Non-producing properties	1,392,126	625,527
Gas plant and gathering system less accumulated depreciation of \$259,160 (1958—\$152,526)	2,158,524	1,770,122
Production and other equipment less accumulated depreciation of \$124,034 (1958—\$73,608)	249,056	179,907
	<u>\$10,790,971</u>	<u>\$ 7,883,126</u>
OTHER:		
Financing expenses less amounts written off	\$ 98,217	—
Refundable deposits	13,554	\$ 9,715
	<u>\$ 111,771</u>	<u>\$ 9,715</u>
	<u><u>\$14,248,718</u></u>	<u><u>\$ 9,332,170</u></u>

See accompanying notes to consolidated financial statements.

LIABILITIES	1959	1958
CURRENT:		
Bank loan (secured)	—	\$ 2,450,000
Accounts payable and accrued charges	\$ 116,364	67,590
Due to affiliated companies	27,977	166,930
Accrued interest on long-term debt	66,926	—
Serial Bonds due September 1, 1960	300,000	—
	<u>\$ 511,267</u>	<u>\$ 2,684,520</u>
LONG-TERM DEBT:		
6% First Mortgage Sinking Fund Bonds Series A due September 1, 1974 (subject to sinking fund commencing in 1965)	\$ 3,000,000	—
5¾ First Mortgage Serial Bonds Series A due \$300,000 annually commencing September 1, 1960	1,500,000	—
	<u>\$ 4,500,000</u>	—
Less Serial Bonds due September 1, 1960 included in current liabilities	300,000	—
	<u>\$ 4,200,000</u>	—
SHAREHOLDERS' EQUITY (Notes 3 and 4):		
Capital—		
Authorized—10,000,000 shares of no par value		
Issued — 7,603,235 shares	\$10,123,392	\$ 7,300,751
Deficit	585,941	653,101
	<u>\$ 9,537,451</u>	<u>\$ 6,647,650</u>
CONTINGENT LIABILITY (Note 5)		
Approved on behalf of the Board:		
C. S. DUNKLEY, <i>Director</i> .		
D. M. WOLCOTT, <i>Director</i> .		
	<u>\$14,248,718</u>	<u>\$ 9,332,170</u>

Auditors' Report

To the Shareholders of Provo Gas Producers Limited.

We have examined the consolidated balance sheet of Provo Gas Producers Limited and its wholly-owned subsidiary as at December 31, 1959 and the consolidated statements of income and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the Companies, the accompanying consolidated balance sheet and consolidated statements of income and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Provo Gas Producers Limited and its wholly-owned subsidiary at December 31, 1959 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta, March 28, 1960.

CLARKSON, GORDON & Co., *Chartered Accountants*.

Provo Gas Producers Limited and its wholly-owned subsidiary

Consolidated statement of income

Years ended December 31, 1959 and 1958

	1959	1958
INCOME:		
Natural gas and crude oil sales less royalties	\$1,256,345	\$ 824,467
Other income	35,741	14,227
	<u>\$1,292,086</u>	<u>\$ 838,694</u>
EXPENSES:		
Operating	\$ 330,548	\$ 284,462
General and administrative	126,184	97,954
Interest expense	170,753	108,279
Exploration, engineering, dry holes and lease abandonments	129,810	154,098
Acreage rentals on non-productive properties	118,439	64,155
Depreciation and depletion	347,527	232,611
Amortization of financing expenses	1,665	—
	<u>\$1,224,926</u>	<u>\$ 941,559</u>
Net income (loss) for the year (Note 6)	<u>\$ 67,160</u>	<u>\$(102,865)</u>

Consolidated statement of deficit

Years ended December 31, 1959 and 1958

	1959	1958
Balance at beginning of year	\$ 653,101	\$ 680,245
Net income (loss) for the year	67,160	(102,865)
	<u>\$ 585,941</u>	<u>\$ 783,110</u>
Profit on sale of investments	—	130,009
Balance at end of year	<u>\$ 585,941</u>	<u>\$ 653,101</u>

Notes to consolidated financial statements December 31, 1959

1. Basis of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Basco Petroleum Ltd., acquired on November 30, 1959.

2. Accounting policies: The Companies' policy is to expense exploration and dry hole costs and the carrying charges of its properties. Productive well costs are capitalized and depleted on a unit of production method based on estimated reserves of oil and gas. Plant and equipment are depreciated on the straight line method at rates based on the estimated useful life of the assets.

3. Capital: The Company's authorized capital was increased from 7,500,000 to 10,000,000 shares without nominal or par value on November 12, 1959. Shares of capital stock were issued during the year as follows:

	Number of shares	Consideration
For properties	346,497	\$ 978,241
For the net assets of Basco Oil & Gas Co. Ltd.	768,500	1,844,400
	<u>1,114,997</u>	<u>\$2,822,641</u>

Under the terms of a management contract, Dome Petroleum Limited has been granted an option to purchase 250,000 shares of the Company's capital stock at a price of \$2.20 per share. While the management contract remains in force and prior to August 1, 1961,

Dome may purchase 150,000 shares at any time and its right to exercise the remainder of the option accrues in instalments of 50,000 shares on July 1 in each of the years 1960 and 1961.

4. Dividends: The deed of trust securing the Company's long-term debt provides that, so long as any of such debt is outstanding, dividends may be paid by the Company to the extent of 70% of consolidated net earnings accumulated since January 1, 1959.

5. Contingent liability: The Company has jointly and severally with Dome Petroleum Limited agreed that in the event Steelman Gas Limited, an affiliate, is unable to retire its then outstanding 6% First Mortgage Bonds on February 1, 1970, it will pay any deficiency required to retire such bonds to the extent of interest paid by Steelman on its 6% Debentures Series A under certain prescribed circumstances.

6. Income taxes: Under Canadian income tax law, drilling and exploration expenditures may be deducted from income in the year of expenditure or, if such expenditures exceed the income for the year, the excess may be carried forward to the first subsequent year or years in which income exceeds current drilling and exploration expenditures. No provision for income taxes has been required by the Companies from inception to December 31, 1959 and at that date an excess of drilling and exploration expenditures was available to be carried forward against future taxable income.

Acreage position as at February 29, 1960

Producing Properties	Acreage		Productive or potentially productive wells		Status
	Gross	Net	Gross	Net	
Area					
GAS					
Alberta					
Provost—Viking gas rights in Provost Unit*	237,440	186,953	50	39.36	21 producing (19 to plant), 1 suspended, 28 capped
Fort Saskatchewan	640	640	1	1.00	Capped
Alberta total	<u>238,080</u>	<u>187,593</u>	<u>51</u>	<u>40.36</u>	
British Columbia					
Crown P. & N. G. Permit and Natural Gas License Bubbles	1,920	480	3	.75**	1 producing gas, 1 capped, 1 suspended
Laprise Creek	1,920	480	3	.75**	Capped
British Columbia total	<u>3,840</u>	<u>960</u>	<u>6</u>	<u>1.5</u>	
Total gas producing	<u>241,920</u>	<u>188,553</u>	<u>57</u>	<u>41.86</u>	
OIL					
Alberta					
P. & N. G. Lease Pembina	2,078	1,039	13	6.5	12 producing oil, 1 injection well
Hughenden	440	220	11	5.5	Producing oil
Carstairs	160	19	2	.25	Producing oil
Drumheller	40	20	1	.5	Producing oil
	<u>2,718</u>	<u>1,298</u>	<u>27</u>	<u>12.75</u>	
Gross Royalty Joarcam	440	4			Royalty acres
Joffre	398	4			Royalty acres
Innisfail	160	13			Royalty acres
Alberta total	<u>3,716</u>	<u>1,319</u>	<u>27</u>	<u>12.75</u>	
Manitoba					
P. & N. G. Lease North Virden	960	122	24	3.05	Producing oil
Daly	200	180	5	4.5	Producing oil
East Hargrave	40	12	1	.3	Producing oil
Ebor	120	24	3	.6	Producing oil
Manitoba total	<u>1,320</u>	<u>338</u>	<u>33</u>	<u>8.45</u>	
Total oil producing	<u>5,036</u>	<u>1,657</u>	<u>60</u>	<u>21.2</u>	

*In addition to its interest in the producing Viking gas rights within the Provost unit area, the Company also holds petroleum and other natural gas rights in the unit area which are not separately reported in this statement.

Non-Producing Properties	Acreage	
	Gross	Net
Alberta		
Crown Drilling Reservation	9,680	1,600
Crown P. & N. G. Lease	87,040	55,840
Crown P. & N. G. Lease—Viking gas rights only	6,566	6,566
Crown Viking Gas Lease	13,437	6,625
Freehold P. & N. G. Lease	18,440	17,843
Freehold Natural Gas Lease	6,930	6,930
Freehold Natural Gas Lease—Viking gas rights only	1,593	1,593
Freehold Petroleum Lease	2,235	2,235
Gross Royalty (Royalty acres)	6,769	272
Overriding Royalty (Royalty acres)	116,320	6,299
Unearned farmout interests	8,324	4,055
Option	5,680	474
Alberta total	<u>283,014</u>	<u>110,332</u>
Saskatchewan		
Crown P. & N. G. Lease	30,138	13,863
Freehold P. & N. G. Lease	640	96
Crown Natural Gas Lease	2,525	2,525
Saskatchewan total	<u>33,303</u>	<u>16,484</u>
Manitoba		
Crown P. & N. G. Lease	6	3
Freehold P. & N. G. Lease	9,387	3,816
Manitoba total	<u>9,393</u>	<u>3,819</u>
British Columbia		
Crown P. & N. G. Lease	30,592	1,070**
Crown P. & N. G. Permit and Natural Gas License	44,497	11,124**
Crown P. & N. G. Permit	403,316	93,279
Crown P. & N. G. Permit	134,815	5,238**
Freehold P. & N. G. Lease	721	360
Overriding Royalty (Royalty acres)	23,068	7,739
British Columbia total	<u>637,009</u>	<u>118,810</u>
Total non-productive	<u>962,719</u>	<u>249,445</u>
TOTAL ACREAGE	<u>1,209,675</u>	<u>439,655</u>

**Net carried interest.

Statistical review

Financial	1959	1958	1957	1956
Gross income (after royalties)	\$1,292,086	\$ 838,694	\$ 188,118	\$ —
Operating income	835,354	456,278	21,083	—
General and administrative expenses	126,184	97,954	90,605	81,119
Exploration and dry hole costs	129,810	154,098	151,647	113,053
Rentals on non-producing properties	118,439	64,155	114,479	101,500
Net income (loss)	67,160	(102,865)	(398,467)	(279,846)
Working capital (deficit)	1,693,674	(2,320,191)	(965,297)	803,056
Long-term debt	4,500,000	—	—	—
Plant and gathering system (Cost less depreciation)	2,158,524	1,770,122	1,449,609	—
Accumulated depreciation and depletion	709,986	373,582	140,985	—
Investments (at cost)	1,141,035	1,075,000	28	—
Operating				
Gas production (billion cubic feet)	11.60	8.40	1.38	—
Oil and condensate production (net barrels)	70,855	29,270	21,044	—
Proved gas reserves (billion cubic feet)	596	567	575	484
Wells drilled	8	9	19	5
Net gas wells*	41.8	38.5	33.2	32.0
Net oil wells*	21.2	9.45	5.5	1.0
Acreage—gross*	1,209,675	984,867	773,396	394,975
Acreage—net*	439,655	492,294	468,892	323,216

*As at February 28 of the following year.

